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Affordable Housing Wobbles as Redevelopment Agencies Close

Affordable housing advocates across California are scrambling for alternative sources of funding following the closure of the state's redevelopment agencies last February.

A state law upheld by the California Supreme Court mandated the dismantling, which aims to redirect billions in property tax earnings held by the redevelopment agencies (RDAs) back to local governments to help close a huge gap in the state's general fund.

The demise of California's 425 RDAs "comes at a very bad time," says Rachel Iskow, executive director of the Sacramento Yolo Mutual Housing Association.

Money coming from the federal housing program has been substantially reduced. The \$2.9 billion generated by the state's Proposition 1C bonds — enacted by California voters in 2006 for various types of housing — are almost gone, and a sluggish development market has reduced money for local low-cost housing trust funds to a trickle.

"The end of redevelopment agencies significantly shrinks the total supply of financing for affordable housing," Iskow explains.

She adds that her private nonprofit has built more than 900 homes in the Sacramento/Yolo area. It serves an ethnically diverse community of mostly "workers earning an average of \$20,000 a year for a family of four people."



It must now put a hold on the construction of 100 apartment units on six acres and the renovation of a decrepit 150-unit housing complex, all meant for low-wage workers. It also stands to lose well-trained professional housing managers and neighborhood advocacy organizers, says Holly Wunder Stiles, the group's housing development director.

Ready Source of Housing Funds

Redevelopment agencies served as the second largest source of funding for affordable housing in the state for 65 years. Local RDAs zoned out rundown or blighted areas, held down property values within them, and borrowed funds for infrastructure improvements

— roads, services, open spaces — to attract private developers.

Once the property values in the redeveloped area rose, RDAs kept the incremental increase in property tax earnings for their exclusive use. This amounted to 12 percent of all property taxes collected in California, currently around \$5 billion a year. By law, 20 percent of RDAs' share of the new tax revenues went back to the county or city for affordable housing.

After the passage of Proposition 13 in 1978, which slashed property tax revenues, cities relied on RDA funds to build affordable housing and rehabilitate blighted areas. From 1998 to 2001 RDA

continued on back

money helped build 16,714 units, more than 75 percent of which were for low-income households, according to a Cal State Fullerton, Dept. of Economics study.

Gov. Brown's Push

Governor Jerry Brown pushed for the RDAs' dismantling, in hopes of freeing up billions in property tax revenues held by the RDAs to ease the \$26-billion crunch in the state budget by at least \$1.7 billion. His push gained traction because RDAs became vulnerable to criticism over the years.

Some of that criticism was directed at RDAs' diversion of as much as \$5 billion a year in statewide property tax funds from local governments, depriving schools, law enforcement and other services of much-needed money. They also have been accused of serving as subsidies for private developers.

Critics also charged that the criteria designating an area for redevelopment were loosely defined, while by 2009 RDAs had incurred huge debts — \$29 billion in outstanding bonds. Oakland's RDA alone owes \$160 million.

And while the Cal State Fullerton, Dept. of Economics 2002 study noted RDAs' contribution to the state's housing stock, it also found that they had very small low-to-moderate housing funds, insufficient to have a dramatic impact on affordable housing overall.

Feeling the Pinch

With RDAs gone, large cities — Los Angeles, San Diego, Oakland, San Francisco and sprawling suburban centers in Southern California and the Central Valley — that benefited the most from redevelopment money are suddenly feeling the pinch.

Thousand Oaks may lose up to \$20 million in cash and \$10 million in assets. Oakland used most of its \$39 million in RDA funds to support citywide staff salaries (\$3.7 million for police; \$3.2 million for city attorneys staff; half the salaries of city council members). The demise of its RDA will cut 160 jobs in 11 departments.

San Francisco may be able to stand the hit, reports the San Francisco Planning and Research Association (SPUR). As a successor agency to its RDA, the city government transferred redevelopment funds and assets to the Mayor's office of housing and City Administrator's office; so affordable housing and existing redevelopment projects stand to be protected.

As both a city and county San Francisco does not have to send its redevelopment money to a separate county government where funds will be divided up among cities — unlike Oakland or San Jose, which are just part of larger counties.

"Redevelopment here in Hercules was under water even when it was around," explains Hercules city manager Steve Duran, "but dismantling it sure doesn't help."

For Hercules, a middle-class community east of San Francisco with a diverse population, the end of redevelopment means "no money for affordable housing subsidies and no capital funds for potential infrastructure projects," says Duran.

On top of this drought, a private financial guarantor is suing Hercules because its RDA defaulted on a \$2.4 million bond, and the city is accused of diverting RDA funds to its operations. If it loses the suit, it could go bankrupt.

Banking on New Legislation

Housing advocates are now pinning their hopes on state legislation for a new source of funds, a statewide housing trust fund, which will be a permanent source of funding for affordable housing.

State Senate President pro tem Darrel Steinberg (D-Sacramento) and Mark DeSaulnier (D-Concord) introduced Senate Bill 1220, which will charge a \$75-fee per document recording of non-sale real estate transactions — maps, easements, liens, title changes and notices of default.

Funds collected will go to the dedicated state housing trust fund. Thirty-nine states have such trust funds, but California has none. Supporters estimate that the fee collection could raise "\$300 million in years with low activity and \$722 million in high-activity years."

The trust fund will support the construction of affordable housing, the renovation of distressed housing stock, and foreclosure prevention and homebuyer assistance programs.

The California Association of Realtors dropped its opposition to the bill once it was made clear that the purchase and transfer of residential and commercial property will be exempt from the fee.

"All of the state's affordable housing advocates are focused on building support for this bill right now," says Iskow.